

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6817**

**BILL NUMBER:** SB 325

**NOTE PREPARED:** Jan 4, 2006

**BILL AMENDED:**

**SUBJECT:** Estimated Tax Payments.

**FIRST AUTHOR:** Sen. Paul

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** The bill eliminates the requirement to make estimated Adjusted Gross Income Tax payments in the case of an individual who is at least 65 years of age on the final day of the individual's taxable year.

**Effective Date:** January 1, 2006 (retroactive).

**Explanation of State Expenditures:**

**Explanation of State Revenues:** *Summary:* The bill exempts taxpayers 65 years old or older from having to make quarterly estimated payments of Individual AGI Tax. This change would affect AGI Tax revenue available to the state in FY 2006 and potentially reduce interest earned by the state. The impacts are as follows.

(1) The bill would reduce AGI Tax revenue in FY 2006 by an estimated \$125 M. This would occur because the bill shifts tax payments that would otherwise occur throughout the tax year (beginning in tax year 2006) to April of the next year. As a result, elderly taxpayers who would otherwise make quarterly estimated tax payments in April and June of 2006 would not make these payments, but instead would pay these taxes when they file their 2006 tax returns in April 2007.

(2) The bill could potentially affect cash flow in FY 2007 as tax payments that would otherwise be made quarterly in September and December of 2006, would not be made until April 2007. These payments also are estimated to total about \$125 M.

(3) The bill also could potentially reduce interest earned by the state on the investment of the quarterly estimated payments throughout the fiscal year. Assuming a 2.5% interest rate (based on the FY 2005 annual yield on state investments), the interest earnings could total about \$3.0 M annually in the near term, with the impact in FY 2006 estimated at approximately \$1.5 M.

*Background:* Under current statute, a taxpayer must make quarterly estimated income tax payments if: (1) the taxpayer is required by the Internal Revenue Code to file estimated tax returns and make estimated tax payments for purposes of the federal Income Tax; or (2) the taxpayer's income is not subject to withholding and the taxpayer's tax liability is expected to be \$400 or more. The bill would eliminate this requirement for taxpayers who are 65 years old or older. Tax return data from 2002 and 2003 suggests that about 170,000 taxpayers who are 65 years old or older make quarterly estimated payments totaling about \$250 M per tax year (or approximately \$62.5 M per quarter).

Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:**

**Local Agencies Affected:**

**Information Sources:** *Treasurer's Annual Report - FY 2005*, Treasurer of State. OFMA Income Tax Databases, 2002-2003.

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